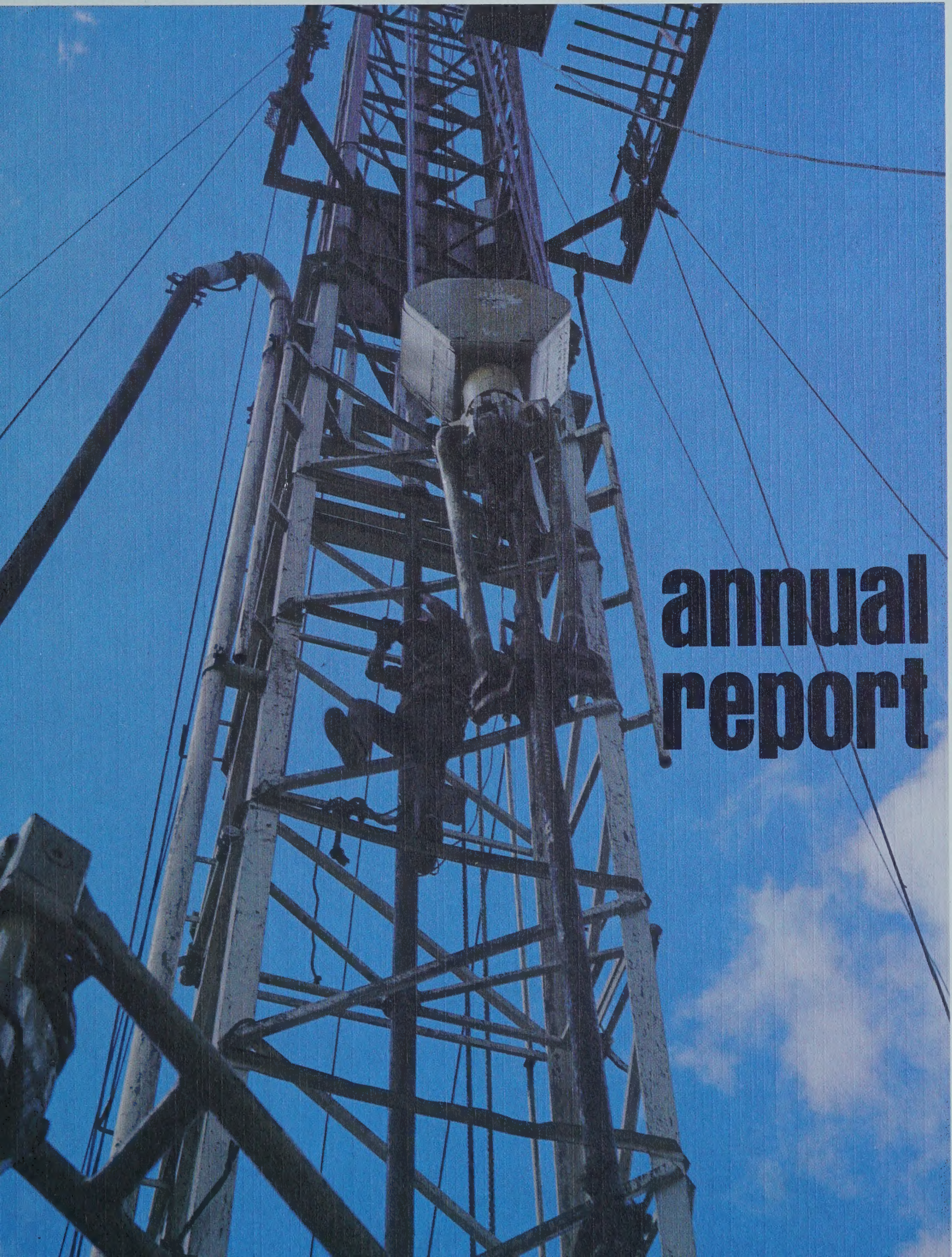
Do Not Throw Away

BASIC RESOURCES INTERNATIONAL S.A.



annual report 1975

OFFICERS AND DIRECTORS

CORPORATE OFFICERS

JOHN D. PARK
President And Chief Executive Officer

DONALD C. CAMPBELL
Executive Vice President

KENNETH G. MURTON
Executive Vice President Finance

RONALD E. EVENSON
Vice President Petroleum
President of Basic Resources (Petroleum) Limited

M. R. BONNER
Secretary

DONALD R. CRAIG
Controller

DIRECTORS

ROBERT W. PURCELL
New York, New York
Chairman Of The Board
Business Consultant To The Rockefeller Family And Associates, Chairman Of The Board Of Trustees Of Cornell University

RICHARD S. ALDRICH
New York, New York
President Of First Washington Securities Corporation, Vice President And Director Of Shields Model Roland & Co., Inc.

DONALD C. CAMPBELL
Guatemala City, Guatemala
Executive Vice President

PETER C. GOLFFING
Fort Lee, New Jersey
Retired Industrialist

KENNETH G. MURTON
London, England
Executive Vice President-Finance
Former Vice President Of The First Boston Corporation In Charge Of The London And Zurich Offices

ENRIQUE C. NOVELLA
Guatemala City, Guatemala
Industrialist, Co-Owner Of Cementos Novella S.A.

JOHN D. PARK
Don Mills, Ontario, Canada
President And Chief Executive Officer

ERNESTO RODRIGUEZ BRIONES
Guatemala City, Guatemala
Industrialist, Former Chairman and President of Empresa Electrica de Guatemala S.A.; Director Banco Industrial S.A.

H. Y. ROWE, ESQ.
El Dorado, Arkansas
General Attorney For Murphy Oil Corporation

SERGE SEMENENKO
New York, New York
Financier, Former Vice Chairman Of First National Bank Of Boston

ROBERT J. SWEENEY, JR.
El Dorado, Arkansas
President Of Murphy Oil Corporation

ANTONIO TONELLO
Milan, Italy
President And Chief Executive Officer
Banca d'America e d'Italia
Advisory Director, Bank of America, N.Y.

CHRISTIAN WEYER
Geneva, Switzerland
Executive Vice President of the Banque de Paris et des Pays-Bas (Suisse) S.A.

Transfer Agent

National Trust Company, Limited
Montreal, Quebec
Canada

Financial Advisors

Banque de Paris et des Pays-Bas (Suisse) S.A.
Finabai Societe Financiere S.A.
Allen & Company Incorporated

Stock Listing

Montreal Stock Exchange-BASM

Designed and Produced for Basic Resources by Group Corporate Graphics, Inc., New York, N.Y.

BASIC RESOURCES INTERNATIONAL S.A.
ANNUAL REPORT 1975

CONTENTS

Crude oil storage tanks at Rubelsanto.

PRESIDENT'S MESSAGE

May 1976

To The Shareholders

The past year has been an important milestone in the growth of your Company. It may be worthwhile to briefly review the events leading to this stage. Initially, we undertook a modest exploration program in minerals and petroleum. Our successful and almost simultaneous discovery in Guatemala of both copper and nickel orebodies, and of petroleum, escalated this modest program beyond our original hopes and expectations. Frankly, we were underfinanced to cope with our success; we were not prepared to carry, with our own resources, what had turned out to be a massive exploration and development program.

It would have been relatively easy to assign these attractive prospects to major mining and petroleum companies who would continue this program on our behalf. This alternative was rejected for several reasons:

1. With our experience in Guatemala and belief in the properties, we felt we were best qualified to carry out this work until we had achieved tangible results.
2. We would have lost control of the pace of operations.
3. A large portion of the benefits would have gone to the companies taking over the properties if an assignment were made at too early a stage.

In our opinion, the plan which was put into effect will result in the maximum benefits to the Company. We carried out the petroleum exploration program until the number of major targets were defined, and we had drilled and successfully completed two wells. From this point, it was relatively easy to enter into a joint venture where Basic contributed, as its share, the beneficial interest in the concession, physical facilities such as drill rigs and camps, the technical data, and the beneficial interest in the production from the two wells that had been successfully completed, while the new partners (Shenandoah Oil Corporation and Saga Petroleum A/S & Co.) undertook to contribute all additional funds required by the Joint Venture until we reach a defined point of proven commercial reserves, in order to earn a ⅓ interest in the production from the Tortugas Salt Dome where we made the original oil discovery, and a ½ interest in the production from the rest of the concession area. Since the Joint Venture was created some three years ago, our new partners have spent approximately $34 million and are continuing expenditures at the rate of over $1.5 million per month, in order to earn their interest in the Joint Venture.

Instead of continuing exploration of our copper property to determine its maximum potential, and building a plant which matched that potential, we put into operation a relatively small mining and concentrating operation at Oxec. Now that the inevitable start up problems, including the proper staffing and training of operators, of this small mine are behind us, we have resumed exploration on two additional orebodies in the vicinity of the Oxec Mine that show promise.

We continued our exploration program for laterite nickel and conducted laboratory-scale pilot tests on smelting the ore. We arranged for a reputable metallurgical and engineering consultant to prepare a report on the nickel property to review the economics of a 60,000,000 pound per year operation using various smelting processes.

More importantly, in 1975, we placed the Company in a sound financial position by increasing the shareholder equity in the Company by $8.9 million, (bringing in as new shareholders two important groups; one financial and the other a strong independent oil company) and by the issue at par of $9.0 million in five year debentures accompanied by 1 million warrants entitling the holder to purchase shares of Basic at $10 per share for the first year and increasing in stages each year to $20 per share for the fifth year.

(This was somewhat similar to the $5.5 million debentures financing we arranged five years ago (May 1971) that was accompanied by 2,200,000 warrants entitling the holder to purchase Basic's shares at prices ranging from $2.50 the first year up to $6.00 for the fifth year. All of the May 1971 issue of warrants have been exercised for a total of approximately $7.6 million.)

As a result of our financing arrangement in 1975, the deficit in working capital was eliminated. Short term obligations were paid, and we are prepared to meet our financial commitments in a manner that will maximize the return to the Company and its shareholders.

The highlights of the past year's operation are:

1. The Joint Venture for the petroleum operation successfully completed two additional wells (making three completions out of three drilled on the Rubelsanto structure). On production tests, RS-1 and RS-2 flowed 24 gravity crude at rates of approximately 5000 barrels per day and RS-3 flowed at a rate of 1300 barrels per day. These production tests proved that producing zone C-9 was continuous between RS-2 and RS-3, a distance of approximately six kilometers.
2. A fourth well, RS-4A, has been drilled to 7640 feet on the Rubelsanto structure and is now under test. This well penetrated the same producing horizon (C-9) as encountered in RS-2 and RS-3. The logs and cores indicate that this interval will be productive, however the interval

Close-up of drilling rig at RS-4A well at Rubelsanto.

PRESIDENT'S MESSAGE (Continued)

has not been tested. This well also penetrated a new producing zone at a depth of approximately 7010 feet which, on the initial drillstem test, flowed at a rate of approximately 12,885 barrels per day. BS & W varied from 20% to 15% and the sulphur content was less than 1% (as compared with 2.5% to 3.0% for the previous zones). Upon termination of drilling and testing, this well will be completed in one of the several producing zones.

3. An extensive seismic program has been conducted over the Xalbal and Playa Grande structures on Block 62, approximately 33 miles west of Rubelsanto (still on our concession). The initial results indicate that these are large, relatively uncomplicated structures with good closure, and are excellent exploration targets. A road has been constructed for access to these structures. A contract has been awarded for a new drill rig, larger than any we have used to date. This rig will arrive in Guatemala May 26, and the Joint Venture has authorized an 18,000 ft. well on Xalbal to start in June 1976.
4. A new all-weather road has been completed from Rubelsanto to Sebol where it connects with the Guatemalan highway system. This should provide substantial savings to the exploration program.
5. Sales of crude oil from Rubelsanto on a limited basis have started to supply the local market. The purchaser accepts this crude oil at the wellhead and arranges for the trucking to his plant.
6. The petroleum industry is becoming increasingly aware of the importance of the petrolific basin covering Southeast Mexico and Northern Guatemala. The Pemex discoveries in this area have received considerable publicity. Our concession is adjacent to the Mexican border and lies in the same basin. (Refer to the map on Page 7 for the location of these discoveries.) Approximately 50 oil companies, among whom are some of the largest in the world, have now made application for petroleum rights or contracts in Guatemala.
7. Copper prices, which were at a low of 52¢ per lb. early in 1975, are now nearly 70¢ per lb. We expect copper prices will continue to increase this year and look forward to favorable prices for metals for the next few years.
8. Exploration work on the nickel property indicates approximately 43 million tons of a laterite nickel ore averaging 1.79% nickel. This ore would be sufficient to supply a 60 million lbs. per year nickel smelter for over 20 years. An engineering study by Parsons-Jurden indicates that the economics for construction of such smelter are attractive.
9. Guatemala suffered a major tragedy in the earthquake which, on February 4, 1976, took many lives and caused extensive property damage. In an unprecedented display of cooperation between all stratas of the population, and the government, the reconstruction program is moving forward at a rapid pace. The Company's facilities were well outside the affected area and suffered no damage.
10. The Company has decided to adopt a policy of writing off as expense a pro rata share of overhead and financial expenses of the parent company.

In summary, we believe your Company's operations for the past year can be considered quite successful. We were concerned by the unusually low copper price which prevailed just as we were starting up the Oxec Copper Mine. The copper industry is just now groping its way out of the worst collapse in recent times. Production cutbacks in the copper industry were the harshest since the major depression of 1930-32. The low copper prices, combined with startup expense, and rapidly escalating smelting charges, caused Oxec to operate at a substantial loss in 1975. This now seems to be behind us. Copper prices have improved to the point that we have a positive cash flow for this operation, and serious students who follow the supply and demand of copper are beginning to question whether the industry will be able to meet the projected demand in 1977-78 unless prices increase to the $1.00 to $1.25 per lb. necessary before new expansion projects can be seriously considered.

We are very pleased with the successful completion ratio of the wildcat exploration drilling on Rubelsanto. We are also encouraged by the new engineering report on the nickel property (See page 9 for more details). We believe we are now prepared to make the financial commitments which will maximize the return to the Company's shareholders.

We have an international Board of Directors with business, technical and financial expertise that few companies of our size can boast. They have made a valuable contribution to our success.

Our management team has been strengthened and we now have senior personnel with excellent qualifications and reputations in the petroleum, mining and financial divisions of the Company.

The value of your shares, as reflected by the market, has increased by approximately 400% over the past four years.

We have valuable properties (petroleum, copper, nickel, and magnesite) which will be developed in an orderly manner to maximize the long-term benefits to the Company and to the Shareholder.

John D. Park

John D. Park
President and Chief Executive Officer

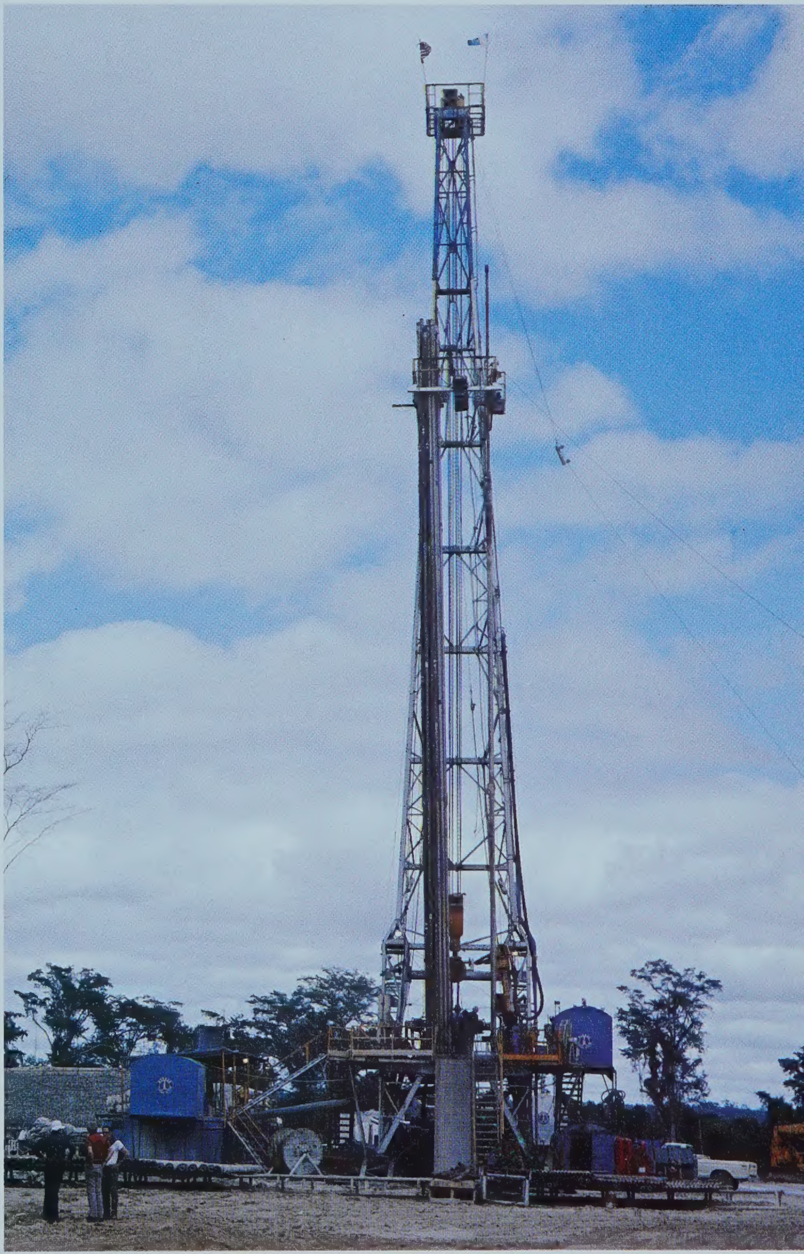
OPERATIONS

PETROLEUM

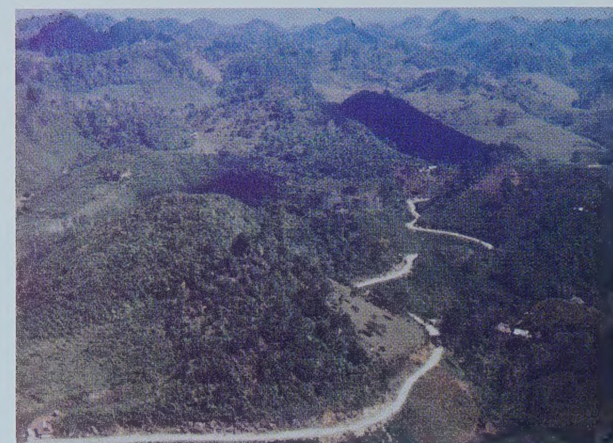
In March 1970, the Government of Guatemala granted a concession consisting of six petroleum rights (approximately 933,000 acres) to Sr. Rudi Weissenberg M., a Guatemalan national who, in turn, awarded a contract to our wholly owned subsidiary, Recursos del Norte Limitada, for the exploration, development and exploitation of this concession. The Company in the past six years spent approximately $9.9 million in exploration work, including establishment of logistical base camps, airports, riverbarge and tugboat, and in performing geological and geophysical surveys, photogeological studies, seismic program, the drilling of core holes for stratigraphic information, and the drilling of two wildcat wells. These two wells which were successfully completed on the Tortugas Salt Dome at a depth of approximately 2500 feet, flowed on open choke at the rate of 1380 and 1843 barrels per day of 35 gravity crude. This is believed to be the first significant discovery of petroleum in Central America.

In May 1973, Basic entered into a joint venture with Saga Petroleum A/S & Co. (a consortium of ninety-two of the major banks, shipping and industrial companies in Norway), and the Shenandoah Oil Corporation, whereby the Company contributed to the joint venture their drill rig, barge, tugboat, camp facilities, radio network, airport, etc., all technical information obtained by the prior exploration work and the beneficial rights obtained to the production from the two successful wells, and Saga and Shenandoah agreed to continue, at their own expense, the development drilling on the Tortugas Salt Dome to determine the size of the petroleum reserve and to do the necessary additional exploration on the remaining portion of the concession, including the drilling of at least three wildcat wells to a minimum depth of 8000 feet to test the major structures plus such other work as may be required until a commercial reserve (as defined in the agreement) is developed, in order to earn a one-sixth working interest each in production from the Tortugas Salt Dome, and a one-fourth working interest each in production from the remaining portion of the concession. Thereafter the Company will pay its pro rata share of development costs.

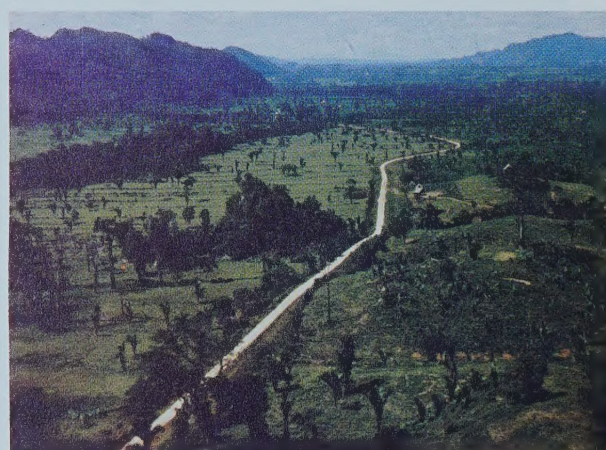
Saga and Shenandoah have spent approximately $28 million as of December 31, 1975 and have been



Over-all photograph of RS-4A well at Rubelsanto.



1.



2.

3.

1. Access road from Sebol to Coban. Crude oil is being trucked over this route for local sales in Guatemala.

2. New all-weather road from Rubelsanto to Sebol where it connects with the Guatemalan highway system. Probable route of future pipeline from concession to east coast of Guatemala.

3. Aerial view of Rubelsanto camp showing RS-4A drilling rig.

spending \$1.0 to \$1.5 million per month during 1976 to carry out the work specified in the Joint Venture Agreement.

In June 1974, RS-1 was successfully completed at a depth of 5200 feet in Producing Zone C-8. This wildcat well, located on a major structure which has a surface expression of approximately thirty square miles, flowed 24 gravity crude oil at a rate of 2250 barrels per day through a ⅜ inch choke from one of what appear to be several productive zones. This well on a production test flowed 4800 barrels per day.

Two offset wells were drilled on this same structure (one three kilometers west and the other three kilometers east of the initial discovery well) to define the size of the petroleum reserve.

On a production test, RS-2 flowed 4807 barrels per day of 24 gravity from Producing Zone C-9 and RS-3 flowed 1300 barrels per day from the same producing zone. The production test proved that this zone has continuity between RS-2 and RS-3 (a distance of six kilometers).

RS-4A has been drilled to a depth of 7640 feet and is now under test. In addition to penetrating Zone C-9 which was productive in RS-2 and RS-3 and which the logs and cores indicate would be productive in RS-4A, this well penetrated a new producing zone (C-12) at a depth of approximately 7010 feet. This zone flowed at a rate of 12,885 barrels per day. The crude was 32 gravity, and the water varied from 20% to 15%. The thickness of the producing zone C-12 is unknown at present. The test was not of sufficient duration to determine reservoir characteristics. The source for the water is also unknown. The well is not complete. It is now under test for the sections above 7640 feet, after which the Joint Venture will decide whether drilling should be continued. In any event, the well will be completed in one or more of the producing zones.

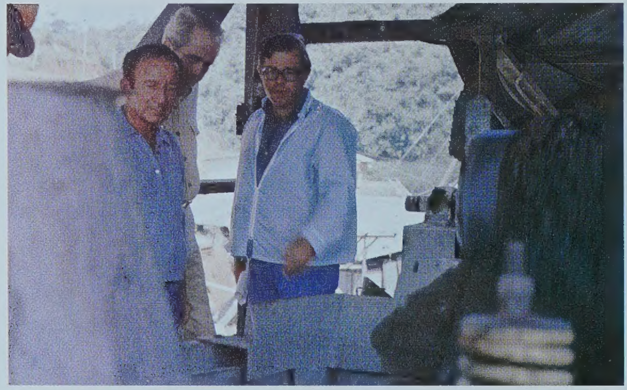
The petroleum concession was transferred to members of the Joint Venture with permission of the Government of Guatemala in August, 1975. It is now held in undivided interest on behalf of the Joint Venture, 50% by Basic Resources International (Bahamas) Limited, 25% by Saga Petroleum and 25% by Shenandoah (on behalf of the Joint Venture). Studies are underway on optimum sized pipelines, and economics of field development.

Shenandoah has been appointed Operator for the joint venture.


MAJOR
CONCESSION AREA
53
57
PLAYA
GRANDE
DISCOVERY
WELLS
TORTUGAS
RS-1
RUBELSANTO
CHISEC
XALBAL
62
63
64
MERIDA
MEXICO
CARIBBEAN SEA
VILLAHERMOSA
REFORMA
FIELDS
TUXTLA
GUTIERREZ
HONDO RIVER
SAN PEDRO RIVER
30
FLORES
ATLANTIC
BELIZE
PASION RIVER
JATATE RIVER
Approximate Edge of Basin
53
57
62
63
64
PUERTO BARRIOS
CHEVRON-SHELL REFINERY
11,000 BOPD CAPACITY
HONDURAS
GUATEMALA
TEXACO REFINERY
14,000 BOPD CAPACITY
PACIFIC OCEAN
EL
SALVADOR
SAN
SALVADOR
Recent Mexican Discoveries
SCALE
KILOMETERS
MILES
BASIC
RESOURCES

OPERATIONS (Continued)

1.



2.

3.

1. New bridge built by Basic shortens route of copper concentrate to shipping port.

2. Donald Campbell, Executive Vice President (center) explains Oxec Copper Mine production to Basic Directors.

3. Close-up photograph showing floatation of copper concentrate at Oxec Mine.

COPPER

The Oxec Copper Mine went into production in January 1975. There was considerable difficulty in the staffing and training of operators for the mine. There are no other underground mines now operating in Guatemala and no reservoir of trained operators upon which to draw. However, we found the local labor to be energetic and industrious. They were eager to learn, and able to adapt to a new situation so, after reasonable training, became good miners and mill operators. They have pride in their work and productivity will continue to increase as they become more experienced and learn how to handle the equipment.

The square set and fill mining operation will limit production from the main orebody to approximately 18,000 tons per year of concentrate. Other ore zones have been located and now that the inevitable problems of startup are behind us, these orebodies will be explored and, if justified, the mill will be expanded to handle such ore.

The Oxec Mine and Mill production cost, excluding amortization of investment, are approximately 34¢ per lb. of payable copper, in the form of 28% copper concentrate at the mine. Transportation, ocean freight, insurance, and smelting and treatment charges are approximately 25¢ per lb. of payable copper. Therefore, when copper is quoted at approximately 59¢ per lb. on the London Metal Exchange, the mine is at a cash breakeven point. The average copper price for the prior five years was approximately 67¢ per lb., and the equivalent cost for transportation, ocean freight, insurance and smelting and treatment charges was 12¢ to 13¢ per lb., which would have netted approximately 55¢ per lb. at the mine. When, for most of 1975, due to the general world recession, copper dropped to 52¢ per lb., from a high of $1.52 per lb., (and an average of 96¢ per lb. for the previous year) and, at the same time, the transportation, ocean freight and smelting costs increased to approximately 25¢ per lb., principally because of the 5-fold increase in the cost of petroleum, the net to the mine dropped to approximately 27¢ per lb. (less than half the net of the prior five year average and less than the cost of production). This problem was further compounded by the rapid increase in the cost of fuel and other materials for the operation of the mine and mill.

It is generally accepted in the industry that the copper price must rise to approximately 85¢ per lb.

to provide the same net to the mine as the prior five years, and that copper prices must rise to the neighborhood of $1.00 per lb. to justify major new investments required to bring new mines into production. It takes three to five years generally to bring these new facilities into production. While there is no shortage in copper now, one could rapidly develop if the price does not rise to the point where these new facilities are economically attractive. It is our opinion, which is shared by major mining companies and responsible publications, that prices will continue their upswing as the world economy continues to improve, and we look forward to prices in the neighborhood of $1.00 per lb. to be reached next year.

Approximately 500 persons are employed at the Oxec Mine and the production has been sold to the Rio Tinto Patino smelter in Spain for a period of 10 years, starting in 1974.

NICKEL

The Company's nickel concessions in Guatemala are held by our subsidiary, Transmetales Limitada. These concessions are adjacent to the Oxec copper concession in the north and the nickel concessions of Exmibal (International Nickel) on the east. The concentrate haul road from the Oxec Copper Mine traverses the nickel concession, and the properties are close to navigable water.

The Company has discovered three lateritic ore deposits in the area. The exploration work which was recently completed on the Buena Vista deposit developed in excess of 43 million metric tons of a 1.79 percent nickel ore with an overburden to ore ratio of less than one. This ore deposit (adjacent to the ore deposit presently being developed by Exmibal, a subsidiary of International Nickel) is well situated with respect to access. The deposit is adjacent to an existing road and the Rio Polochic (a navigable river) which flows into Lago de Izabal and the Gulf of Honduras into the Atlantic.

The second of these ore deposits (Chiis) contains over 9 million tons of a 1.70 percent nickel ore and a third deposit ,Chitcoj, contains sizeable reserves of a lower grade.

The ore discovered in the Buena Vista property should be sufficient to supply a 60 million lbs. per year lateritic nickel smelter for over 20 years. An engineering study by Parsons-Jurden indicates that the economics for construction of such a smelter are attractive. The object of this preliminary report on the economics of a 60,000,000 pound per year operation was to determine which of the various smelting processes would be preferable for our particular needs. It is well to note that in the smelting of laterite ore, fuel plays a most important part, accounting for perhaps 60% of the process costs. Basic should enjoy a distinct advantage, when production is realized, in the proximity of fuel reserves. A project of this size, however, must be approached with great care and study. It should take a period of approximately 18 months from now to determine an appropriate process, make suitable advance arrangements for the sale of future production and arrange the financing.


Sweetener to remove hydrogen sulfide (H_2S) from crude oil produced at Rubelsanto.

MAGNESITE

A wholly owned subsidiary, Explom Limitada, owns a magnesite concession in the eastern part of Guatemala. Preliminary work shows that the magnesite deposit contains approximately 7 million tons of a good grade ore. During 1976 the Company will be investigating the economics of bringing this orebody into production.

CONSOLIDATED BALANCE SHEETS

BASIC RESOURCES INTERNATIONAL S.A. AND SUBSIDIARIES
December 31, 1975 And 1974

ASSETS

	1975	1974
CURRENT ASSETS		
Cash	$ 132,386	$ 185,673
Certificates of deposit	3,000,000	—
Accounts and notes receivable	87,413	447,592
Inventories (Note 1)	1,173,597	485,876
Prepaid expenses	61,372	46,562
Other assets	99,545	—
Total current assets	4,554,313	1,165,703
DEFERRED EXPLORATION, DEVELOPMENT AND EQUIPMENT (Note 1)		
Property in Operation in Guatemala		
Mine development and equipment costs	5,017,482	—
Deferred exploration and preoperating costs	4,473,897	—
Less accumulated depreciation, depletion and amortization	(1,294,060)	—
	8,197,319	—
Properties in Exploration Development Stage		
Guatemalan properties	13,595,444	20,777,288
North American properties (Note 3)	421,944	421,944
	22,214,707	21,199,232
OTHER DEFERRED CHARGES (Note 4)	449,176	—
Total assets	$27,218,196	$22,364,935

The accompanying notes are an integral part of these statements.

CONSOLIDATED BALANCE SHEETS

BASIC RESOURCES INTERNATIONAL S.A. AND SUBSIDIARIES
December 31, 1975 And 1974

LIABILITIES AND STOCKHOLDERS' EQUITY

	1975	1974
CURRENT LIABILITIES		
Notes payable (Note 4)		
Banks	$ 302,153	$ 4,465,185
Other	165,901	800,414
Current maturities of long-term debt (Note 4)	2,156,225	1,632,384
Accounts payable and accrued liabilities	1,247,857	1,710,857
Total current liabilities	3,872,136	8,608,840
DEFERRED LIABILITIES (Note 5)	299,523	307,522
LONG-TERM DEBT (Note 4)	9,400,000	5,813,287
STOCKHOLDERS' EQUITY (Note 6)	13,646,537	7,635,286
Total liabilities and stockholders' equity	$27,218,196	$22,364,935

The accompanying notes are an integral part of these statements.

CONSOLIDATED STATEMENTS OF CHANGES IN FINANCIAL POSITION

BASIC RESOURCES INTERNATIONAL S.A. AND SUBSIDIARIES
Year Ended and period since inception to December 31, 1975

	Year Ended December 31, 1975	Since Inception to December 31, 1975
SOURCES OF FUNDS		
Loss for the period	**$ (2,950,628)**	$ (2,950,628)
Less depreciation, depletion and amortization	**1,324,605**	1,324,605
Funds used in operations	**(1,626,023)**	(1,626,023)
Issue of sinking fund debentures	**9,000,000**	14,500,000
Sale of stock and exercise of warrants and options	**8,961,880**	16,597,165
Proceeds from loans and advances	**—**	6,465,631
Total sources of funds	**16,335,857**	35,936,773
USES OF FUNDS		
Retirement of debt	**5,421,287**	11,266,109
Deferred exploration and development charges	**2,235,592**	17,518,772
Increase in other deferred charges	**479,721**	479,721
Acquisition of property, plant and equipment net of retirements	**73,943**	5,989,994
Total uses of funds	**8,210,543**	35,254,596
INCREASE IN WORKING CAPITAL	**$ 8,125,314**	$ 682,177
Changes in components of working capital		
Cash and certificates of deposit	**$ 2,946,713**	$ 3,132,386
Accounts receivable	**(360,179)**	87,413
Inventories	**687,721**	1,173,597
Other assets	**99,545**	99,545
Prepaid expenses	**14,810**	61,372
Notes payable	**4,797,545**	(468,054)
Current maturities of long-term debt	**(523,841)**	(2,156,225)
Accounts payable and accrued liabilities	**463,000**	(1,247,857)
Total increase in working capital	**$ 8,125,314**	$ 682,177

The accompanying notes are an integral part of these statements.

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

BASIC RESOURCES INTERNATIONAL S.A. AND SUBSIDIARIES
December 31, 1975 and 1974

	1975	1974
COMMON STOCK (Note 6)		
Common Stock, par value $3.30, authorized 14,000,000 shares; issued 6,834,598 and 5,271,095; outstanding 6,834,598 and 5,112,091.	**$22,554,173**	$16,869,900
CAPITAL IN EXCESS OF PAR VALUE (Note 6)		
Excess of par value of common stock issued for predecessor company over book value at date of exchange	**(9,012,328)**	(9,012,328)
Excess of proceeds received over par value of common stock issued on exercise of warrants and options	**3,055,320**	(222,286)
Capital in excess of par value at end of year	**(5,957,008)**	(9,234,614)
RETAINED DEFICIT (Note 1)	**(2,950,628)**	—
TOTAL STOCKHOLDERS' EQUITY	**$13,646,537**	$ 7,635,286

CONSOLIDATED STATEMENT OF REVENUES AND COSTS

BASIC RESOURCES INTERNATIONAL S.A. AND SUBSIDIARIES
Year ended December 31, 1975

		1975
REVENUES		
Sales of copper concentrate (Note 1)		**$2,003,568**
Interest and other income		**59,493**
Total revenues		**2,063,061**
COSTS AND EXPENSES		
Operating costs and expenses exclusive of items shown separately		**2,717,977**
Depreciation, depletion and amortization (Note 1)		**1,324,605**
General, administrative and other expenses	**$ 3,206,699**	
Less amounts deferred (Note 1)	**(2,235,592)**	**971,107**
Total costs and expenses		**5,013,689**
NET LOSS		**$(2,950,628)**
NET LOSS PER SHARE (Note 7)		**$(.48)**

The accompanying notes are an integral part of these statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(1) Summary of Significant Accounting Policies:

Deferred exploration and development cost

The Company and its subsidiaries are for the most part in the exploration and development stage of various natural resource concessions in Guatemala. This includes the petroleum, nickel and magnesite concessions. Operations have been started on a portion of the copper concession at the Oxec Mine and commercial production was achieved in 1975. A portion is still in exploration at December 31, 1975.

All costs, net of preoperating revenues, incurred by the Company and its subsidiaries, including exploration, financing, administrative, organizational, promotional and depreciation expenses, have been deferred prior to 1975. In 1975, the Company began amortizing the previously deferred costs allocated by the Company to the Oxec copper concession on a straight line method over eight years.

The 1975 results of operations of Oxec are reflected in the accompanying Consolidated Statement of Revenues and Costs.

In 1974, the Company began deliveries to Rio Tinto Patino, S.A. (the purchaser) under the terms of a sales agreement providing for sales of 23,800 to 30,800 tons of a 26 percent copper concentrate per year for a period of 10 years. The capacity of the present mine is approximately 18,000 tons per year of a 28.5 percent copper concentrate which is equivalent to approximately 20,000 tons per year of a 26 percent copper concentrate. If the mill output is not increased to a minimum of 23,800 tons per year of copper concentrate, under certain conditions, the purchaser may impose a penalty of $8 per ton for the amount of concentrate by which the delivery fails to meet the minimum quantity. This penalty is payable for the two years following the year of short delivery (i.e., if the concentrate deliveries are short by 3,000 tons in any year, the smelter may, under certain conditions, in the following two years, charge Basic $24,000). To reach the full design capacity of the mill of 28,000 tons per year, new ore zones in the same concession will need to be developed.

Indirect administrative costs incurred in 1975 by the Company and its subsidiaries of $3,206,699, including interest costs, have been allocated by the Company to its various concessions. $971,107 of such costs were allocated to Oxec and charged directly to expense. The balance of $2,235,592 have been deferred.

The Company's allocation of deferred exploration and development costs related to Guatemalan properties excluding expenditures aggregating approximately $14,100,000 in 1975 and $13,700,000 at December 31, 1974 incurred by other parties in connection with joint venture agreements entered into with the Company, is as follows:

	Balance at December 31,	
	1975	1974*
Copper net of amortization in 1975	$ 4,310,260	$ 4,869,497
Petroleum	9,869,388	8,644,023
Nickel	2,071,787	1,398,605
Magnesite	738,646	401,601
	$16,990,081	$15,313,726

*1974 amounts restated to reflect an improved method of allocation by the Company.

The recovery of these deferred costs, which will be amortized as the concessions become commercial, together with equipment costs is dependent on the future commercial productivity of concessions held by the Companies.

Property, plant and equipment

Property, plant and equipment accounts are carried at cost and depreciated over the estimated useful life of the assets, principally on the straight-line method.

Principles applied in consolidation

The consolidated financial statements include the accounts of the Company and all its subsidiaries which consist principally of two Guatemalan subsidiaries (Transmetales and Recursos) and two Bahamian subsidiaries (Bahamas and Petroleum). All subsidiaries are wholly-owned and all significant intercompany items and transactions have been eliminated.

Foreign translation

The accounts of the Company and its Bahamian subsidiaries are maintained in U.S. dollars. The accounts of the Guatemalan subsidiaries are maintained in the Guatemalan currency (Quetzal) which has been at par with the U.S. dollar since 1924. There are no restrictions on foreign exchange transactions. The principal activities of the Company are carried on in the Republic of Guatemala through its subsidiaries. The Company has adopted the practice of stating its consolidated financial statements in U.S. currency.

Inventory valuation

Inventories consist of copper concentrate and materials and supplies and are all valued at the lower of cost (FIFO) or realizable value.

(2) Concessions in Guatemala:

The Company's subsidiaries are the holders of certain copper, nickel and magnesite concessions and petroleum exploration rights in the Republic of Guatemala.

The status of the subsidiaries' major concessions as of December 31, 1975, is as follows:

Principal Minerals	Concession	Current Status
COPPER	Oxec	An exploitation concession was granted in October 1972, for a period of 40 years.
COPPER	Chiacach	Application has been made for the conversion of the exploration concession to an exploitation concession, as provided under the Mining Code.
NICKEL	Chitcoj Chiis Chatela Buena Vista A Buena Vista B	Application has been made for the conversion of the exploration concessions to exploitation concessions as provided under the Mining Code.
PETROLEUM	Six Petroleum Rights (Blocks #30, 53, 57, 62, 63 and 64)	A Guatemalan national was granted a petroleum concession by the Government of Guatemala which was subsequently transferred to members of the Petroleum Joint Venture (who hold such concession for the Joint Venture); Basic Resources International (Bahamas) Ltd. 50%, Shenandoah Oil Corporation 25%, and SAGA Petroleum A/S and Co. 25%. The Joint Venture entered into a contract to pay the original concession holder, et al, a royalty of 2%. The original term of the concession is to March 10, 1976. Application for renewal was made in accordance with the Petroleum Code which provides for automatic renewal of the concession under provision of Article 32 of the Petroleum Code and Article 67 of the Regulations to the Petroleum Code. The Hydrocarbon Section of the General Direction of Mines and Hydrocarbons of Guatemala has confirmed that the holders of the concession have complied with all obligations under the Petroleum Code and the renewal application is being processed.
MAGNESITE	Diana Patricia (Saquipec)	An exploitation concession was granted in June 1973, for a period of 40 years.

(3) Exploration of oil and gas properties in North America:

The amount of exploration costs associated with operations in North America represents a 50% net profit interest in certain oil and gas leases of Petrotech, Inc. (see Note 8). The recovery of the cost of the investment in exploration for oil and gas in North America is dependent upon successful final development work and negotiation of a contract relative to the above.

(4) Short-term borrowings and long-term debt:

Short-term:

At December 31, 1975, $200,000 was outstanding to a bank and was repaid in March, 1976.

In addition, a borrowing of $100,000 had been made by a Guatemalan subsidiary in order to provide working capital. The borrowing was repaid on March 31, 1976.

The Company also has an agreement with a bank under which the bank advances to the Company amounts equal to 60% of the provisional invoice value of copper concentrates sold to Rio Tinto Patino, S.A., at 1¼% per annum over the London Interbank interest rate. At December 31, 1975, $2,153 was outstanding.

During 1975, the Company had an agreement with a bank whereby the Company borrowed funds for working capital. The outstanding balance ($3,060,173 at December 31, 1974) was repaid and the agreement was terminated in September 1975.

During 1975, the maximum amount of short term bank loans outstanding was approximately $4,600,000 and the average outstanding balance during the year was approximately $2,800,000.

At December 31, 1974, $700,000 was payable to Stockholders and Directors, representing loans to the Company. There are no such loans outstanding at December 31, 1975 (see Note 8).

Long-term:

	1975	1974
Sinking Fund Debentures, due September, 1980	$ 9,000,000	$ —
1973 Transmetales Loan, due June, 1976 and 1977	2,400,000	4,000,000
Debentures, due May, 1976	125,000	3,375,000
Other	31,225	70,671
	11,556,225	7,445,671
Less current maturities	2,156,225	1,632,384
Long-term	$ 9,400,000	$5,813,287

In 1975, the Company sold $9,000,000 of Sinking Fund Debentures, which will mature on September 10, 1980, and may be redeemed, at the option of the Company, prior to that date upon payment of a premium of 5% prior to September 10, 1976, and decreasing progressively 1% on September 11, in each of the years 1976 to 1979 inclusive. The debentures shall bear interest at 1¾% over the London Interbank Eurodollar rate, payable semi-annually in March and September. The interest rate at December 31, 1975 was 10% per annum. The Indenture, dated September 5, 1975, provides for Sinking Fund payments of $1,000,000 at December 31, 1976 and $2,000,000 each year at December 31, 1977 to 1979 inclusive. As security the Company has pledged and delivered to the Trustee all the capital shares of Basic Resources International (Bahamas) Limited and Basic Resources (Petroleum) Limited. The costs incurred applicable to the issuance of these debentures, approximately $450,000 net of amortization, have been deferred and will be amortized over the term of the debt.

In conjunction with the above issue of debentures, the Company issued share purchase warrants pursuant to an Indenture, dated September 5, 1975, which entitled the holders thereof to purchase an aggregate of 1,000,000 common shares. These warrants are exercisable at varying prices as follows:

Period	Per Share Price
On or before Sept. 10, 1976	$10.00
Sept. 11, 1976 to Sept. 10, 1977	12.00
Sept. 11, 1977 to Sept. 10, 1978	14.00
Sept. 11, 1978 to Sept. 10, 1979	17.00
After Sept. 10, 1979	20.00

At the option of the warrant holders, satisfaction of the exercise price may be made either in cash or by the delivery of debentures, or a combination of both.

The 1973 Transmetales Loan represents borrowings made by the Company under a May 1973 agreement. This agreement calls for repayment of the debt balance in installments of $1,000,000 in 1976 and $1,400,000 in 1977 with interest payable at 2¼% over the Eurodollar rate; 20% of the net smelter returns from the sale of copper concentrates from the Oxec Mine are to be reserved for the repayment of this loan. The loan is secured by a first mortgage on the Oxec Copper Mine and Plant.

The debentures due May 4, 1976, of which $125,000 were outstanding at December 31, 1975, have been redeemed by the Company at maturity, at an interest rate of 9½% per annum. In conjunction with the issue of these debentures, the Company had issued share purchase warrants pursuant to an Indenture dated May 4, 1971, as amended June 25, 1971, which entitled the holders thereof to purchase an aggregate of 2,200,000 common shares. In 1975, holders of such warrants purchased 420,000 shares at $5.00 per share and 910,003 shares at $6.00 per share and made payment by cash in the amount of $5,860,018 and $1,700,000 in par value of debentures. As of December 31, 1975, 129,001 warrants to purchase common shares were outstanding, all of which were exercised subsequent to such date at $6.00 per share.

(5) Deferred liabilities:

Deferred liabilities consists primarily of advances repayable solely out of 50% of any future net revenues, as defined, that may be received by the Company from certain concessions.

(6) Common stock:

	Shares		Amount		
	Outstanding	Treasury	Par Value	Capital in Excess of Par	Treasury
Balance, December 31, 1973 and 1974	5,112,091	159,004	$16,869,900	$(222,286)	$524,713
Exercise of share purchase warrants under terms of an Indenture (See Note 4)	1,330,003	—	4,389,010	3,171,008	—
Sale of Treasury stock	159,004	(159,004)	524,713	82,342	(524,713)
Exercise of options granted under an employee stock option plan and other	233,500	—	770,550	24,256	—
Balance, December 31, 1975	6,834,598	—	$22,554,173	$3,055,320	$ —

As of December 31, 1975, there are 2,589,668 shares of common stock reserved as follows:

(a) There are 1,000,000 shares of common stock of the Company reserved for issue upon the exercise of share purchase warrants issued in connection with the issue of Sinking Fund Debentures, under an Indenture dated as of September 5, 1975, described in Note 4.

(b) There are 129,001 shares of common stock of the Company reserved for issue upon the exercise of share purchase warrants issued in connection with the issue of debentures described in Note 4.

(c) There are 1,000,000 shares of common stock of the Company reserved for issue to Murphy Oil Corporation at any time prior to June 30, 1976, at a price of $6.50 per share, under an agreement dated March 8, 1975. This agreement was made in connection with the Murphy Oil exercise of warrants for 1,000,000 shares of common stock in 1975, relative to debentures described in Note 4.

(d) The Company is authorized, under certain conditions, to issue to directors, officers and key employees options totaling a maximum of 5% of the outstanding shares. At December 31, 1975, 264,000 shares of common stock are reserved for issue upon exercise of options as follows:

40,000 shares at $3.30 (U.S.) per share expiring August 8, 1978
50,000 shares at $3.30 (U.S.) per share expiring September 15, 1979
49,000 shares at $3.30 (U.S.) per share expiring April 14, 1979
50,000 shares at $5.50 (U.S.) per share expiring June 12, 1980
10,000 shares at $5.50 (U.S.) per share expiring June 12, 1978
15,000 shares at $10.375 (U.S.) per share expiring October 26, 1980
50,000 shares at $5.00 (U.S.) per share expiring April 11, 1977

Of the 264,000 shares reserved, 120,333 shares were earned at December 31, 1975. During 1975, 125,000 shares were granted, 156,000 shares were exercised and 50,000 shares expired.

(e) There are 105,000 shares reserved for issue pursuant to an option granted to Mr. Peter C. Golffing, a Director of the Company. Part of the rights under this agreement were transferred with respect to 25,000 shares to Mr. Kenneth G. Murton, a Director of the Company and with respect to 80,000 shares to another shareholder. These options expire on November 6, 1976 and are exercisable at $3.70 (Cdn.) per share.

(f) There are 66,667 shares reserved for issue pursuant to an option granted to First Washington Securities Corporation (FWSC) under the terms of a prior agreement whereby FWSC became the Company's investment bankers. The option expires on December 31, 1976 and is exercisable at U.S. $3.30 per share.

(g) There are 25,000 shares reserved for issue pursuant to an option granted in 1974 to Mr. Rudi Weissenberg Martinez, the former holder of the petroleum concession in Guatemala. This option expires in October, 1977, and is exercisable at $3.30 (U.S.) per share.

(7) Net loss per share:

Net loss per share has been computed based on 6,131,042 average common shares outstanding for the year. All outstanding warrants and options have been excluded from the calculation since their effect would be anti-dilutive.

(8) Transactions with officers, directors, and/or related parties:

The Company has, from time to time, incurred short-term borrowings from certain of its officers and directors in the form of demand loans with interest rates approximating prime rates at the time the loans were incurred. The maximum amount of such loans outstanding during 1975 and 1974 was $750,000 and $955,000 respectively. These loans were generally bridge financing to cover working capital requirements while arrangements were being completed for normal commercial loans (Note 4).

As explained in Note 3, the Company has an agreement with Petrotech, Inc. concerning exploration for oil and gas in North America. Mr. Peter C. Golffing, a director of the Company, is Chairman of the Board and a major shareholder of Petrotech, Inc.

Under an agreement dated September 20, 1969, $100,000 is payable to Mr. Golffing out of the net proceeds received by the Company or its subsidiaries from the exploitation of the six petroleum concessions referred to in Note 2.

Mr. Richard S. Aldrich, a director of the Company, is president of First Washington Securities Corporation (FWSC), the Company's former investment bankers who hold an option to purchase stock of the Company (see Note 6).

(9) Salaries and remuneration of officers and directors:

Salaries and remuneration of officers and directors were approximately $204,000 for the year ended December 31, 1975 and $185,000 for the year ended December 31, 1974.

AUDITORS' REPORT

To the Stockholders of
BASIC RESOURCES INTERNATIONAL S.A.:

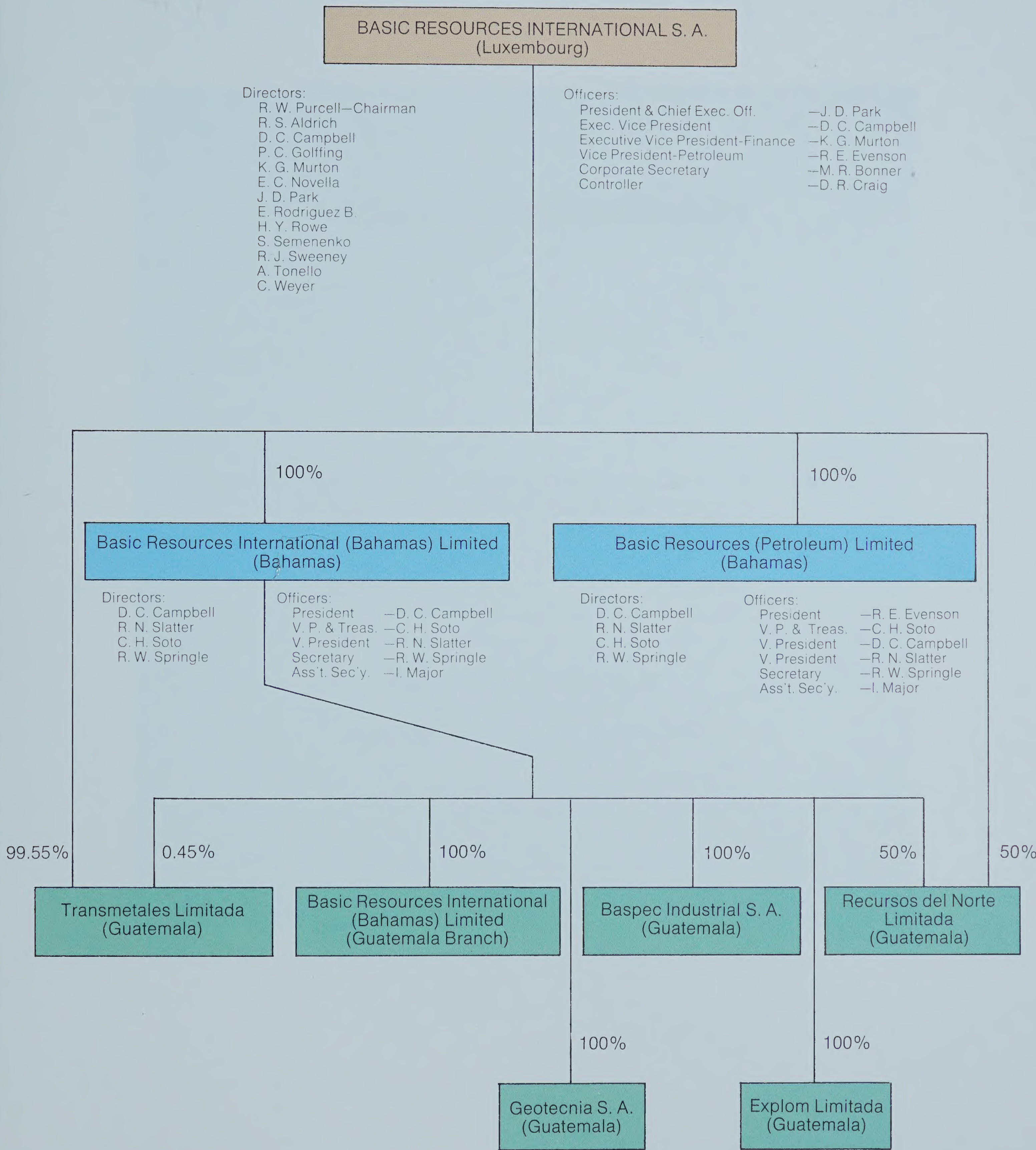
We have examined the consolidated balance sheets and statements of stockholders' equity of Basic Resources International S.A. (a Luxembourg corporation) and subsidiaries as of December 31, 1975 and 1974, the related consolidated statements of revenues and costs, and changes in financial position for the year ended December 31, 1975, and the consolidated statement of changes in financial position since inception to December 31, 1975. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

As set forth in Notes 1 and 3 to the consolidated financial statements, the Company and its subsidiaries have incurred exploration, development and equipment costs of $22,214,707 as of December 31, 1975, applicable to mineral and petroleum concessions in Guatemala and oil and gas properties in North America. Recovery of these costs is dependent upon the future commercial productivity of the concessions and properties.

In our opinion, subject to the recovery of exploration, development and equipment costs discussed above, the aforementioned consolidated financial statements present fairly the financial position of Basic Resources International S.A. and subsidiaries as of December 31, 1975 and 1974, and the results of their operations and changes in financial position for the periods mentioned in the first paragraph, in conformity with generally accepted accounting principles consistently applied during the periods.

Arthur Andersen & Co.

New York, N.Y.,
May 24, 1976.


BASIC RESOURCES INTERNATIONAL S. A.
(Luxembourg)
Directors:
R. W. Purcell—Chairman
R. S. Aldrich
D. C. Campbell
P. C. Golffing
K. G. Murton
E. C. Novella
J. D. Park
E. Rodriguez B.
H. Y. Rowe
S. Semenenko
R. J. Sweeney
A. Tonello
C. Weyer
Officers:
President & Chief Exec. Off. —J. D. Park
Exec. Vice President —D. C. Campbell
Executive Vice President-Finance —K. G. Murton
Vice President-Petroleum —R. E. Evenson
Corporate Secretary —M. R. Bonner
Controller —D. R. Craig
100%
100%
Basic Resources International (Bahamas) Limited
(Bahamas)
Directors:
D. C. Campbell
R. N. Slatter
C. H. Soto
R. W. Springle
Officers:
President —D. C. Campbell
V. P. & Treas. —C. H. Soto
V. President —R. N. Slatter
Secretary —R. W. Springle
Ass't. Sec'y. —I. Major
Basic Resources (Petroleum) Limited
(Bahamas)
Directors:
D. C. Campbell
R. N. Slatter
C. H. Soto
R. W. Springle
Officers:
President —R. E. Evenson
V. P. & Treas. —C. H. Soto
V. President —D. C. Campbell
V. President —R. N. Slatter
Secretary —R. W. Springle
Ass't. Sec'y. —I. Major
99.55%
0.45%
100%
100%
50%
50%
Transmetales Limitada
(Guatemala)
Basic Resources International
(Bahamas) Limited
(Guatemala Branch)
Baspec Industrial S. A.
(Guatemala)
Recursos del Norte
Limitada
(Guatemala)
100%
100%
Geotecnia S. A.
(Guatemala)
Explom Limitada
(Guatemala)

BASIC RESOURCES INTERNATIONAL S.A.

Head Office
Boite Postale 410-11
11, Boulevard du Prince Henri
Luxembourg

Liaison Office
Suite 1707
745 Fifth Avenue
New York, New York 10022

BASIC RESOURCES INTERNATIONAL (BAHAMAS) LIMITED
BASIC RESOURCES (PETROLEUM) LIMITED
P.O. Box N3242, Suite 201, Bitco Building
Nassau, The Bahamas

TRANSMETALES LIMITADA
EXPLOM LIMITADA
RECURSOS DEL NORTE LIMITADA
13 Calle 7-51, Zona 9
Guatemala City, Guatemala
Central America

BASIC RESOURCES INTERNATIONAL S.A.